The Predator State: A Summary

James K. Galbraith's *The Predator State* is undoubtedly one of the most important books on the economics of our era. Galbraith sets himself the task, not only of exposing the discredited economic orthodoxies of our generation, but also documenting the economy as it really exists, and setting an agenda for the future. It is a book that desperately needs to be listened to. And, even better than all that, it's a fun read. Go out and buy it immediately.

That said, here is a brief, abbreviated summary of the book, to better pull out its themes and spread its message. It is of necessity less clear and less well-argued than the book itself, which you should actually read if you want to argue, but it should give the gist of things.

1: The Reaganites swept into power on the arguments of economic conservatives: lower taxes, tight money, and an assault on all opponents of market forces (government, regulation, unions). Their views were tried and failed completely. They have no remaining defenders in academia and only slogans and cronies outside of it. There is no longer any vision on the right; the left should leave its defensive crouch and start proposing something new.

2: Friedman and friends said that markets would lead to democracy — that "economic freedom" begets political freedom. But economic freedom isn't what it sounds like; it's not freedom from economic want but instead, as Friedman put it, "the freedom to choose" or, in other words, "the freedom to shop". But control over production is as unfree as in the Soviet Union, with advertising for propaganda, R&D for planning, and Wall Street analysts for government inspectors. "Lines form, under capitalism, every day."

3: Supply-siders argued that a) saving is a public good because it leads to investment, b) America does not save enough compared to other countries, c) saving would be unleashed by lowering taxes on it, d) the resulting investment would spur an economic boom. Every piece of this is wrong: a) in an efficient market, all the benefits from investment are captured by the investor; thus investment cannot be a public good unless markets are inefficient, in which case the government should step in *more*, b) the correct amount of saving is a policy decision, there's no reason to believe other countries have it right (the Soviet Union had a 40% level of saving right up to its collapse), c) rich people save most of their money anyway (it's impossible to consume that much) and changes in interest rates dwarf changes in tax rates; furthermore, real investment is encouraged by *high* personal taxes, since this forces people to keep their money in corporations, d) personal saving is less than 1% of GDP; almost all investment comes from corporations or overseas.

4: Milton Friedman claimed that high inflation (it was 10% in the 1970s) was just the result of printing too much money. Reagan's Fed adopted this belief, sending the US and many foreign countries into deep recession. Eventually, the policy was completely abandoned and high inflation has not been seen since. Serious inflation isn't caused by printing money, but by wage-price spirals — the price of oil shot up, causing rising prices to cover oil costs, causing workers to demand higher wages to pay those prices, causing prices to rise even higher, and so on. Today, most prices are set by overseas manufacturers and labor unions are so weak that workers can't demand wage increases. Inflation is dead.

5: Democrats (and some Republicans) repeatedly insist that we need to balance the budget or face fiscal collapse. But the budget is ruled by a simple equation: the total amount the government owes + the total amount the public owes = the total amount we owe to foreign countries. This is simple logic: whatever is not owed within the country must be owed to another country. But the international economy depends on other countries keeping large reserves of dollars (see 14), meaning our trade deficit must be high. As long as this is so, we must either have the government run large deficits or ask people to do so. The budget deficit was closed in the late 1990s because citizens picked up the slack with high credit card spending and home equity loans, inevitably leading to a slump. Balancing the budget is for suckers; Democrats should spend the money on public goods instead, promoting economic growth and thus raising tax revenue.

6: The argument for free trade comes from Ricardo's "comparative advantage" — a clever textbook exercise, but irrelevant to the real world since it assumes constant costs. In reality, either you produce manufactured goods, in which your costs go down as you make more, or you sell off commodities, in which case your costs go up as you make more. With the former, it takes time for local industry to build up the advantage (requiring protectionism). With the latter, you end up like Mongolia, which opened up its animal husbandry market, swelling herd sizes, turning grass into permanent desert, and killing off the entire market. With no other exports, such a country is in big trouble. Ricardo was wrong: diversification, not specialization, is the way to develop — and how every successful country has. Unfortunately, we've forced this broken system on most of the world. (China has escaped, letting state-supported banks fund money-losing new companies until they grow large enough to succeed as exporters. In the mean time, they dump their products on local Chinese, allowing them to have a very high standard of living at very low wages.)

7: There is no trade-off between equality and efficiency. Instead, equality leads to efficiency. Denmark is one of the most equal countries in Europe, and as a result one of the wealthiest. The rest are on a continuum down to unequal and inefficient. Full employment and high wages require companies to make the most of the employees they have, increasing efficiency. Raising the minimum wage doesn't raise unemployment, it lowers it — unemployment and inequality have risen and fallen together since 1920. Higher wages lead to more jobtaking and less quitting. The remaining increase in inequality was caused by stock market giveaways to dot-commers and Bush giveaways to government contractors — which is why it was limited to Silicon Valley and the Potomac, respectively.

8: The US is not a free market. Of GDP, 17% is health care (where experts, not consumers decide how to spend), 16% is housing (subsidized by quasi-public mortgage firms and tax deductions), 15% is federal welfare, 14% is local welfare, 4.5% is military spending, 3% is higher education (paid for mostly by government or conspicuous philanthropy[1] and consumed for status and not value). Together, 70% of US GDP is planned; it's just that our facade of a free market makes us less efficient at planning than other countries (especially in health care).

9: In the 1970s, American industry (particularly steel and cars) was being challenged and weakened by Japan. Reagan's assault on inflation (see 4) dealt them a death blow, sending their foreign and domestic markets into deep recession, driving up the value of the dollar (making their exports more expensive than their competitors'), and raising interest rates. In the 1980s the technical staff left for Silicon Valley, and 1990s financial fraud killed off what remained. When new startup founders paid themselves exorbitant salaries from VC money other CEOs rushed to keep up, making them all wealthy enough to become a separate class. They used their new power to prey on the corporations that they ran.[2]

10: Previously, regulation kept the predators in check — unions, NGOs, and progressive businesses pushed government standards to kill regressive competitors. But newly-wealthy predator CEOs had the Republicans take over and gut regulation. The result is the Predator State, where every new law is a corporate giveaway. Prescription drug benefits for Big Pharma; NCLB to defund and deskill schools (building support for vouchers); and Social Security reform to give workers' paychecks to Wall Street. (Democrats have so far prevented the latter, but corporate-funded think tanks now aim to take them down from inside.) The programs allow further predation; privatizing college loans has led loan companies to bribe student loan officers. It's not that Republican government fails at tasks

like stopping Katrina; it's that such tasks of governance are not its goal — opening up New Orleans for Halliburton contracts is.

11: The great liberal economic agenda is "making markets work" — small fixes for market failures. The canonical example is job training to fight unemployment. But job training does not create new jobs, economic growth does; the tech boom was the last time we saw a real decrease in unemployment. Similarly, some Dems propose universal preschool since experiments find kids with free preschool grow up to get better-paying jobs. But those preschools did not create jobs, they just gave their students an advantage in getting them. Universal preschool would give everyone that advantage, leaving no net impact. And creating markets in unmarketable goods (health care, energy, the climate) is doomed to failure. In these industries markets will not work; planning is required.

12: Planning is alleged to have been disproven by the Soviet Union's fall. But it is unavoidable. The market, even when it does work, fails to take into account the wishes of the poor and the needs of the future, since neither can buy things today. New Orleans fell not because of a lack of foresight (it was predicted by the local paper) or technology (the Army knew how to build strong levees) but because we lacked a *plan* — nobody in power bothered to do anything about it. Similarly, climate change will melt Antarctica and drown New York, Boston, South Florida, Houston, the Bay Area, London, the Netherlands, Bangladesh, and Shanghai. Stopping it requires a *plan*; an enormous one ranging from elementary school classes to government-funded research centers to a WWII-level restructuring of the economy.

13: Deregulation can have three effects: 1) increasing competition and lowering wages and prices, 2) speeding technological change and increasing quality, 3) creating monopolies and raising prices. Trucking deregulation did 1, airline deregulation did 1 and 2, but telecom, banking, and energy deregulation did 3. Charles Keating donated to the government, leading VP George H. W. Bush's task force to deregulate his industry and allow the Savings and Loan Scandal. Ken Lay was Bush's largest contributor, leading VP Dick Cheney's task force to deregulate his industry and allow the Enron energy scandal.

The solution is to lower CEO pay, raise the minimum wage, and set wage standards in between. Some liberals claim trade is the problem and the solution is to set environmental and labor standards on other countries. These are unenforceable and will be ineffective (companies moving overseas already build clean factories since that's most efficient and no significant exports are made using child or prison labor). Instead, we should set wage standards at home, like Scandinavia, forcing companies to increase productivity and pay fair wages. Wage standards should also apply to undocumented workers; illegal immigration is caused by employers who send recruiters to Mexico for compliant and low-paid workers. Applying wage standards to all will end these abusive practices.

14: Any country that can pay for its imports entirely with exports can organize its internal economy (its people and resources) however it likes. Countries that do not balance their trade depend instead on global capital markets and must play by their rules. But the US is a special case: after World War II (1944) it set up the Bretton Woods system of international exchange, pegging all currencies to the dollar and backing the dollar with gold reserves. But during Vietnam's deficits (1971), Nixon broke the system, devaluing US currency and wreaking havoc on the rest of the world. Reagan's tight money policies (1981) caused so much instability that other countries were forced to build up reserves of US Treasury Bonds in exchange for military, economic, and export security. US bubbles and the Soviet Union's fall make this system less secure than before, but as long as it remains the US can do whatever it likes economically. And it might as well, since economic success will strengthen the system and the policies proposed here will lead to economic success.

Conspicuous philanthropy is like conspicuous consumption, a way for the rich to flaunt their wealth, only far more effective — you can outdo your neighbors simply by adding another zero to the check, the buildings with your name on them live on after you die, and the government gives you a tax deduction. ■

See the classic Thorstein Veblen, *Theory of the Leisure Class* for more on predation. ■

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